



Patrick W. Henning, Director
November 19, 2008
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Arnold Schwarzenegger
Governor

Ms. Cynthia D. Banks, Director
County of Los Angeles
Department of Community and Senior Services
3175 West Sixth Street, Suite 300
Los Angeles, CA 90020

Dear Ms. Banks:

WORKFORCE INVESTMENT ACT
FISCAL AND PROCUREMENT REVIEW
FINAL MONITORING REPORT
PROGRAM YEAR 2007-08

This is to inform you of the results of our review for Program Year (PY) 2007-08 of the County of Los Angeles Department of Community and Senior Services' (LADCSS) Workforce Investment Act (WIA) grant financial management and procurement systems. This review was conducted by Ms. Mechelle Hayes and Mr. David Jansson from June 16, 2008, through June 27, 2008. For the fiscal portion of the review, we focused on the following areas: fiscal policies and procedures, accounting system, reporting, program income, expenditures, internal control, allowable costs, cash management, cost allocation, indirect costs, fiscal monitoring of subrecipients, single audit and audit resolution policies and procedures for its subrecipients and written internal management procedures. For the procurement portion of the review, we examined procurement policies and procedures, methods of procurement, procurement competition and selection of service providers, cost and price analyses, and contract terms and agreements and property management.

Our review was conducted under the authority of Section 667.410(b)(1), (2) & (3) of Title 20 of the Code of Federal Regulations (20 CFR). The purpose of this review was to determine the level of compliance by LADCSS with applicable federal and state laws, regulations, policies, and directives related to the WIA grant regarding financial management and procurement for PY 2007-08.

We collected the information for this report through interviews with representatives of LADCSS, a review of applicable policies and procedures, and a review of documentation retained by LADCSS for a sample of expenditures and procurements for PY 2007-08.

We received your response to our draft report on October 2, 2008, and reviewed your comments and documentation before finalizing this report. Because your response adequately addressed the finding 12 cited in the draft report, no further action is required and we consider the issue resolved. Additionally, your response adequately addressed findings 1, 3, 4, 10 and 11 cited in the draft report, and no further action is required at this time. However, these issues will remain open until we verify the implementation of your stated corrective action plan during a future onsite review. Until then, these findings are assigned Corrective Action Tracking System (CATS) numbers 80189, 80191, 80192, 80198, and 80199. However, your response did not adequately address findings 2 or 5-9 cited in the draft report, we consider these findings unresolved. We requested that LADCSS provide the Compliance Review Division (CRD) with additional information and/or a CAP to resolve the issues that led to the findings. Therefore, these findings remain open and have been assigned CATS numbers 80190 and 80193-80197.

BACKGROUND

The LADCSS was awarded WIA funds to administer a comprehensive workforce investment system by way of streamlining services through the One-Stop delivery system. For PY 2007-08, LADCSS was allocated: \$9,757,304 to serve 1,861 adult participants; \$10,217,796 to serve 3,556 youth participants; and \$6,887,375 to serve 1,354 dislocated worker participants.

For the quarter ending March 31, 2008, LADCSS reported the following expenditures and enrollments for its WIA programs: \$4,805,106 to serve 1,536 adult participants; \$4,550,206 to serve 2,721 youth participants; and \$3,819,364 to serve 1,087 dislocated workers.

FISCAL REVIEW RESULTS

We concluded that, overall, LADCSS has made improvements in its financial management system and continues to make progress to resolve prior issues. We anticipate the same positive progress to resolve the instances of noncompliance in the following areas: cost allocation, accruals, interest income, executive salary limitations, program/administration costs, contract payments, and subrecipient monitoring. The findings that we identified in these areas, our recommendations, and LADCSS proposed resolution of the findings are specified below.

FINDING 1

Requirement: OMB Circular A-87, Attachment B(C)(3) states, in part, that a cost is allocable to a particular cost objective if the goods and services

involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

20 CFR Section 667.220 (b)(1)(i-ix) states, in part, that the costs of administration are the costs associated with performing the following: accounting, budgeting, financial, cash management, procurement, purchasing property management, personnel management, payroll, and audit functions.

20 CFR Section 667.220(b)(2) states, in part, that the costs of administration includes performing the oversight and monitoring responsibilities related to WIA administrative functions.

Observation: We found that beginning with the June 30, 2008 quarterly report, LADCSS began reporting all Workforce Investment Board (WIB) costs (defined as direct charges for items such as travel for WIB members to attend WIA planning activities and costs to support the WIB meetings) as program costs although some of the WIB costs are associated with the oversight of administrative functions (for example, the finance committee addresses subcontractor budget and expenditures). Prior to the June 30, 2008 report, LADCSS reported all WIB costs as administration costs.

The LADCSS WIB planning activities include attendance to quarterly board meetings, committee meetings (such as executive, certification and quality, and finance committees), and other planning activities. Therefore, some of WIA planning activities and WIB meetings) are for the purpose of oversight related to WIA administration functions.

Recommendation: We recommended that LADCSS provide the Compliance Review Division (CRD) with a corrective action plan (CAP), including a timeline, to report WIB activities based on the relative benefit received (administration or program). Additionally, we recommended that LADCSS review the WIB costs reported in the June 30, 2008 quarterly report, reallocate those cost based on the relative benefit received and provide CRD with documentation of its actions.

LADCSS Response: The LADCSS stated that the amounts charged to the WIA program for the operation of the WIB only reflect program costs. The chief program expenditure is travel. Therefore, LADCSS reviewed travel expenditures for PY 2007-08 and determined that

all travel was program related. There is no cost associated with the meeting of the budget and finance sub-committees as they meet on the same day and location as the regularly scheduled WIB meetings. The relatively small amounts of administrative costs have been captured in other non-claimed cost centers. However, LADCSS will set up a new cost center for Fiscal Year 2008-09 to capture these costs so that they are clearly identifiable. The LADCSS provided documentation supporting the travel expenditures (conference agendas, e-mails, WIB meeting schedule/agendas, and June 2008 Cost Statement Summaries) for the WIB.

State Conclusion: The LADCSS stated corrective action should be sufficient to resolve this issue. However, we cannot close this issue until we verify, during a future onsite visit, LADCSS' successful implementation of its stated corrective action. Until then, this issue remains open and has been assigned CATS number 80189.

FINDING 2

Requirement: 29 CFR Section 97.20(b)(1) states, in part, that accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.

20 CFR Section 667.300(b)(1) states, in part, that a State may impose different forms or formats, shorter due dates, and more frequent reporting requirements on subrecipients.

WIA Directive WIAD06-4 states, in part, that all WIA grant recipients are required to report expenditures on an accrual basis and must submit quarterly expenditure reports. Quarterly expenditures (including accruals) and obligations must be reported on a cumulative basis and a separate expenditure report must be filed for each line item or grant code. Additionally, accrued expenditures and cash expenditures must be reported separately in quarterly reports.

LADCSS' Contract provision 20.2 states, in part, that the contractor shall maintain supporting documentation for all accruals reported. Accruals which are not properly supported may be disallowed upon audit. All accruals must be reported to

the county on a quarterly basis. In the event a contractor is not on the accrual basis of accounting, then an analysis of accruals must be made based on the documentation on hand.

Observation:

During the on-site visit LADCSS stated that its subrecipients do not report accruals. The LADCSS stated that it would begin estimating all subrecipient accruals June 30, 2008 based on budget or yearly estimates (budget less year-to-date expenditures divided by the number of months left in the fiscal year); program accruals were reported in the June 30, 2008 quarterly report. However, subsequent to the review, we found that some subrecipient invoices appear to be reporting accruals (for example, Career Partners March 2008 invoice). Additionally, in a subsequent conference call an LADCSS' monitoring representative stated that some subrecipients are reporting on an accrual basis.

The LADCSS stated, in its response to the on-site guide, that, "We do not accrue administration costs." During the on-site visit LADCSS stated that it would begin reporting administrative accruals (both salaries/benefits and services/supplies) in the June 30, 2008 quarterly report; administrative accruals were reported in the June 30, 2008 quarterly report.

Similar findings were issued in PYs 2002-03, 2005-06, and 2006-07.

Recommendation:

We recommended that LADCSS provide CRD with a CAP, including a timeline, to review its subrecipient reporting procedures and identify which subrecipients are reporting on an accrual basis, which subrecipients do not have accruals to report, and which subrecipients are not reporting accruals and provide CRD the results of its review. We then recommended that LADCSS provide CRD a CAP to report subrecipient accruals that takes into consideration the results of the review. Additionally, we recommended that LADCSS continue to report administrative accruals quarterly.

LADCSS Response:

The LADCSS stated that no CAP is required because subrecipient agencies are invoicing accruals at the end of the program year as expenditures. Also, the subrecipient invoices either do not include accruals or the amounts reported are clearly not correct. Therefore, LADCSS states that submitting timelines

and a CAP is neither cost effective nor efficient. Therefore, LADCSS will continue to submit quarterly/monthly financial reports using the following methodology approved by EDD: accruals for program expenditures will be based on budget, which is budget less year-to-date expenditures divided by the number of months left in the fiscal year or yearly estimates (whichever is more appropriate).

State Conclusion: Based on LADCSS' response, we cannot resolve this issue at this time.

29 CFR Section 97.3(1-3) states, in part, that accrued expenditures mean the charges incurred by the grantee during a given period requiring the provision of funds for good and other tangible property received, services performed by employees, contractors, subgrantees, subcontractors, and other payees; and other amounts becoming owed under programs for which no current services or performance is required, such as annuities, insurance claims, and other benefit payments.

29 CFR Section 97.20(b)(1) states, in part, that accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.

29 CFR Section 97.20(b)(6) states, in part, that accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.

20 CFR Section 667.300(c)(3) states, in part, that reported expenditures must be on the accrual basis of accounting and cumulative by fiscal year of appropriation. If the recipient's accounting records are not normally kept on the accrual basis of accounting, the recipient must develop accrual information through an analysis of the documentation on hand.

The LADCSS states its subrecipients are invoicing accruals at the end of the program year as expenditures. Per Federal and State directives, as well as LADCSS' contract provision, these subrecipients are required to report accrued expenditures quarterly. If the subrecipients' accounting records are not normally kept on the accrual basis of accounting, then the

subrecipient must develop accrual information through an analysis of the documentation on hand. The LADCSS methodology proposes to estimate the subrecipients' accruals and disregard accrual information provided by the subrecipients without a reasonable explanation. Furthermore, LADCSS has not demonstrated that it has sufficient knowledge of its subrecipient reporting processes in order to accurately estimate the subrecipients' accruals.

The LADCSS proposed methodology is based on a yearly budget or estimates that have not been tested to determine the accuracy of its information. The methodology fails to take into account any existing information (i.e. accrual information maintained by a number of subrecipients) to assist in a more accurate reporting of costs. In other words, LADCSS has no supporting documentation for its claimed accrued costs other than a basic arithmetic calculation. The lack of any reconciliation activity to test the accuracy of its estimates allows for misreporting of expenditure information.

As specified in the Requirement section above, and further detailed in the additional CFR citations sections above, the LADCSS is required to submit accurate, current, and complete expenditure information on an accrual basis on the quarterly report.

We recommend that LADCSS, at the minimum, provide CRD with a CAP, including a timeline, to take the following actions to ensure subrecipients are reporting on an accrual basis:

1. Review the subrecipients' reporting procedures;
2. Determine if subrecipients have a system in place to report accrual information;
3. Take the necessary action to ensure reporting on an accrual basis including developing an acceptable process to estimate accrued costs in the absence of actual accrual costs;
4. Establish a methodology to include subrecipient accrued costs with LADCSS costs for reporting to the State.

Once the above actions have been taken, we recommend that LADCSS provide CRD with the results on its review of the subrecipient's reporting procedures and the methodology LADCSS will establish to determine and report accrued costs for

its subrecipients. Until then, this issue remains open and has been assigned CATS number 80190.

FINDING 3

Requirement: OMB Circular A-87, Attachment A(C)(3) states, in part, that a cost is allocable to a particular cost objective if the goods and services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

20 CFR 667.200(a)(7) states, in part, that interest income earned on funds received under WIA must be included as program income.

Observation: We found that LADCSS was not reporting interest income in the JTA system and had used interest earned from program costs to off-set administrative costs. Specifically, LADCSS had an account that contained \$1,367,126 in subcontractor reimbursements (resulting from disallowed or unsupported costs) from PYs 2004-05, 2005-06, and 2006-07. These funds generated \$131,343 in interest. In December 2007, LADCSS began a process to move these funds from the account and use them to off-set WIA program expenditures between February and May 2008. In its March 2008 quarterly report, LADCSS applied the interest to off-set its administration costs. Subsequent to the review, LADCSS reprogrammed the interest earned as program income in its June 30, 2008 quarterly report.

Recommendation: We recommended that LADCSS provide CRD with a CAP to ensure that subcontractor reimbursements are re-programmed or returned to the Employment Development Department (EDD) in a timely manner. Additionally, the CAP should include assurances that any interest income earned by LADCSS will be reported quarterly.

LADCSS Response: The LADCSS provided a copy of its Subrecipient Reimbursement Procedures that will ensure that subcontractor reimbursements are re-programmed or returned to EDD in a timely manner. The LADCSS will initiate the process by notifying the subrecipient agency that reimbursement for questioned costs is due by a specified deadline and provide a transmittal payment form that must be returned with the reimbursed funds. The LADCSS staff who receives the funds will deposit the reimbursed funds and

determine if they will be re-programmed or returned to EDD. Funds to be returned to EDD will be submitted usually within 30 days. The LADCSS anticipates that modified procedure will be implemented for PY 2008-09.

Effective immediately, LADCSS will ensure the interest earned due to refunds from subrecipient agencies will be reported on the quarterly financial reports.

State Conclusion: The LADCSS stated corrective action should be sufficient to resolve this issue. However, we cannot close this issue until we verify, during a future onsite visit, LADCSS' successful implementation of its stated corrective action. Until then, this issue remains open and has been assigned CATS number 80191.

FINDING 4

Requirement: Public Law 109-234, Section 7013 states, in part, that no funds appropriated under this law or prior acts under the heading Employment and Training, shall, after the date of enactment of this section, be used by a recipient or subrecipient of such funds to pay the salary and bonuses of an individual, in excess of Executive Level II.

Training and Employment Guidance Letter (TEGL) 05-06 states, in part, that the salary and bonus limitations apply to funds that are available for expenditure on or after June 15, 2008. Any salary or bonus payments by a recipient or subrecipient are covered by this limitation and this limitation applies to such payments regardless of whether they are paid as a direct or an indirect cost. In instances where funds impacted by section 7013 pay only a portion of the salary, the section 7013-impacted funds may only be charged for the share of the employee's time attributable to work on the section 7013-impacted grant or contract.

WIAD06-18 states, in part, that a salary table providing this rate is listed on the Federal Office of Personnel Management Web site www.opm.gov under Salaries and Wages. These levels are adjusted annually and the Web site is also updated annually. Effective January 1, 2007, the adjusted salary and bonus limit is set at \$168,000 until otherwise advised.

Observation: We found that LADCSS Director Cynthia D. Bank's salary exceeded the \$168,000 salary and bonus limitation for 2007. Ms. Banks salary for calendar year 2007 was \$172,084. Since approximately 6.5 percent of Ms. Banks salary was charged to WIA programs through LADCSS AMS cost pool, approximately \$12,046 was charged to WIA programs which exceeds limitation of \$11,760 (based on the share of the employee's salary attributable to work on WIA programs) by \$286.

Additionally, we found that LADCSS' Regional Workforce Group (RWG) subrecipients have not been reviewed to ensure that no individual exceeds the salary and bonus limitations established by Public Law 109-234.

Recommendation: We recommended that LADCSS adjust Ms. Banks salary so that the portion charged to Employment and Training programs does not exceed the Executive Salary Limit for calendar year 2007 and provide CRD with documentation of its actions. Additionally, we recommended that LADCSS provide CRD a CAP, including a timeline, to (1) ensure Ms. Banks salary does not exceed the calendar year 2008 limitation of \$172,200, (2) ensure no other LADCSS executive exceeds the salary limit, and (3) review the RWGs executive salaries and provide the results, including any needed CAP, to CRD.

LADCSS Response: The LADCSS stated that it will ensure that any salary amounts charged to WIA programs, 10.92 percent for fiscal year 2007-08, do not exceed the Department of Labor salary limitation. The LADCSS adjusted Ms. Banks salary and provided documentation of its action. Beginning fiscal year 2008-09 LADCSS will review subrecipient executive salaries as part of its fiscal and procurement monitoring. Beginning fiscal year 2009-10, executive staffs salaries for all subrecipients and the allocations to various programs will be required as part of each contract.

State Conclusion: The LADCSS' stated corrective action should be sufficient to resolve this issue. However, we cannot close this issue until we verify, during a future onsite visit, LADCSS' successful implementation of its stated corrective action. Until then, this issue remains open and has been assigned CATS number 80192.

FINDING 5

Requirement:

20 CFR Section 97.20(b)(1) states, in part, accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.

20 CFR 667.220(a) states, in part, that the cost of administration are that allocable portion of necessary and reasonable allowable cost including local grant recipients, local grant subrecipients, local fiscal agents, and One-Stop operators that are associated with specific administrative functions.

20 CFR 662.400, states, in part, that the Local Board and the One-Stop operator shall specify the operator's role. That role may range between simply coordinating service providers within the center, to being the primary provider of services within the center, to coordinating activities throughout the One-Stop system.

20 CFR Section 662.410 states, in part, that the Local Board, with agreement of the chief elected official, must designate and certify One-Stop operators in each local area. The One-Stop operator is designated or certified through a competitive process; under an agreement between the Local Board and a consortium of entities that includes at least three or more of the required One-Stop partners; or under the conditions described in Section 662.420 or 662.430.

20 CFR Section 662.420 states, in part, that the Local Board may be designated or certified as the One-Stop operator only with agreement of the chief elected official and the Governor. The designation or certification must be reviewed whenever the biennial certification of the Local Board is made:

20 CFR Section 662.430 states, in part, that the Local Board, the chief elected official and the Governor may agree to certify an entity that has been serving as a One-Stop operator in a One-Stop delivery system established prior to the enactment of WIA to continue to serve as a One-Stop operator without meeting the requirements for designation under Section 662.410.

Observation:

During PY 2006-07 we reviewed 10 One-Stop Center invoices for WIA adult program expenses and found that each contained a

line item tracking administration costs charged to the WIA program. However, LADCSS reports those costs to the State, via the Job Training Automation (JTA) system, as program costs; specifically, subrecipient administration costs are reported under Program Cumulative Expenditures Section V, number 5 "other." Additionally, we reviewed 5 One-Stop Center invoices for WIA youth program expenses and found that these invoices do not contain a line item for reporting administration costs.

In its response to the PY 2006-07 Fiscal and Procurement draft report, LADCSS stated that as part of its updated Five Year Plan to the Employment Development Department (EDD) that the Los Angeles County Workforce Investment Area is the One-Stop Operator for purposes of reporting administration costs to EDD. Therefore, all costs reported by contractors are reported as program costs, as LADCSS reports its administrative costs as the One-Stop Operator. In its response dated June 20, 2008, LADCSS stated that LADCSS and its County Counsel have advised the Los Angeles Board of Supervisors and Chief Executive Office of this finding. A high-level task force has been established to provide oversight and monitor a resolution. The LADCSS will provide EDD with ongoing status reports regarding this issue.

During the PY 2007-08 review we found that LADCSS continues to report its One-Stop Center administration costs (adult, dislocated worker, rapid response, and youth) as program costs to the State. Additionally, LADCSS continues to work with the task force to provide oversight and monitor a resolution to this issue.

Recommendation: We recommended that LADCSS' provide CRD a CAP, including a timeline, to identify and reallocate, to the administration category, all PY 2006-07 and PY 2007-08 administration costs and provide CRD with documentation of its actions. Finally, we recommended that LADCSS provide CRD with a CAP stating how it will ensure that, in the future, administrative expenditures by its One-Stop operators are reported appropriately in the JTA system.

LADCSS Response: The LADCSS stated that an Executive Task Force has been appointed to review this recommendation and all its ramifications. That review, which involves legal counsel, has been targeted for completion by December 31, 2008. A plan of action will be

developed after a decision is made on how LADCSS will proceed on this issue, including a presentation to the Los Angeles County Board of Supervisors and the Los Angeles County Workforce Investment Board.

State Conclusion: Based on LADCSS' response, we cannot resolve this issue at this time. Although we acknowledge that LADCSS continues to work toward resolving this issue, LADCSS has not yet provided a CAP and timeline to identify and reallocate, to the administration category, all PY 2006-07 and PY 2007-08 administration costs and provide CRD with documentation of its actions as well as ensuring that, in the future, administrative expenditures by its One-Stop operators are reported appropriately in the JTA system. Until then, this issue remains open and has been assigned CATS number 80193.

FINDING 6

Requirement: OMB A-87 Attachment A(C)(1)(j) states, in part, that for a cost to be allowable it must be adequately documented.

OMB Circular A-87, Attachment B(C)(3) states, in part, that a cost is allocable to a particular cost objective if the goods and services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

LADCSS' subrecipient contract provision Section 66.1-2 states, in part, that the requirements of this contract may not be subcontracted by CONTRACTOR without the advance written approval of COUNTY. Any attempt by CONTRACTOR to subcontract without the prior consent of COUNTY may be deemed a material breach of this Contract. If CONTRACTOR desires to subcontract, CONTRACTOR shall provide the following information promptly at COUNTY'S request: A description of the work to be performed by the Subcontractor; a draft copy of the proposed subcontract; and other pertinent information and/or certifications requested by COUNTY.

Observation: We sampled seven subrecipient payments and found that LADCSS did not have documentation demonstrating that it had provided its contractors advance written approval to subcontract as required by contract. Additionally, LADCSS did not have

supporting documentation to determine if the payments were allowable.

Specifically, LADCSS reimbursed LA Works (Contracts RWGA070804 and RWGR070804), SASSFA (Contracts RWGA070805 and RWGR070805), Career Partners (Contract RWGD070801), Compton (Contract RWGA070802), and Hub Cities (Contract RWGD070803) for subcontractors, consulting services, professional services, outside services, contractual services, and special department expense without supporting documentation.

Specifically, through March 31, 2008, LADCSS reimbursed:

- LA Works (Contract No. RWGA070804) \$35,382 for WIA Subcontractors/Subcontractors, \$496 for Consulting Services, \$10,725 for Professional Allocation, \$1,324 for Professional Services Allocated, and \$358 for Professional Svs Alloc;
- LA Works (Contract No. RWGR070804) \$2,634 for Professional Services Allocated;
- SASSFA (Contract No. RWGA070805) \$4,968 for Outside Service – Other, \$800 for Outside Service – Assessment, and \$805 for Outside Service – RWG Mtng;
- SASSFA (Contract No. RWGR070805) \$560 for Outside Services – Other and \$245 for Outside Srv – RWG Mtng/Conf.;
- Career Partners (Contract No. RWGD070801) \$796 for Contract Services, \$3,799 for Professional Services, and \$132,122 for Contractual Services; and
- Compton (Contract No. RWGA070802) \$572 for Special Department Expense.

For March 2008, LADCSS reimbursed:

- Hub Cities (RWGD070803) \$2,632 for consultant services.

Similar findings were issued in PY 2005-06 and 2006-07.

Recommendation: We recommended that LADCSS provide CRD with documentation to justify the payments for subcontractors,

consulting services, professional services, outside services, contractual services, and special department expense. As the LADCSS contract provision Section 66.1-2 is also part of the PY 2008-09 contracts, we also recommended that LADCSS provide CRD a CAP to ensure that, in the future, the contract provision will be implemented for all subrecipients.

LADCSS Response: On September 18, 2008, LADCSS requested documentation from its subrecipients regarding the payments noted above. The documentation is due to LADCSS by October 2, 2008. Once the documentation is received, LADCSS will review it for completeness and forward it to EDD. For fiscal year 2008-09 LADCSS will ensure that subrecipient agencies obtain LADCSS approval for payments to subcontractors, consulting services, professional services, outside services, contractual services, and special department expenses. Upon submission of invoices, LADCSS will ensure that prior approval was obtained for such expenditures and that adequate documentation is attached, prior to payment.

All fiscal year 2009-10 contracts with subrecipient agencies will be submitted in a line item budget format with planned expenditures for these specific services listed in detail. The LADCSS staff will review these expenditures as part of the contract approval process. With the new process in place, LADCSS will then eliminate the above mentioned contract provision.

State Conclusion: Based on LADCSS' response, we cannot resolve this issue at this time. Although LADCSS provided a CAP regarding future contract payments, LADCSS has not yet provided documentation for the PY 2007-08 payments noted above. We, again, recommend that LADCSS provide CRD with documentation to justify the payments for subcontractors, consulting services, professional services, outside services, contractual services, and special department expense. Until then, this issue remains open and has been assigned CATS number 80194.

FINDING 7

Requirement: OMB A-87 Attachment A(C)(1)(i) states, in part, that for a cost to be allowable it must be adequately documented.

OMB Circular A-87, Attachment A(C)(3) states, in part, that a cost is allocable to a particular cost objective if the goods and services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

The LADCSS subrecipient contract states, in part, that the following documentation is required with each rapid response (RR) invoice:

- Timesheets of staff performing RR services
- Lists of activities performed
- Employer profiles (one for each employer)
- Regional Workforce Group (RWG) 121 forms (one for each planning meeting, orientation, or workshop)
- Orientation sign-in sheets (employee signatures)
- RR Surveys (referral if employees to WorkSource Centers)
- RR Evaluation (customer satisfaction forms to be completed at the end of the orientation by the impacted worker or by the business after the business service.)
- Intervention Strategy Plan (when applicable)
- E-mail, correspondence, phone logs, etc.

Observation:

We found that LADCSS reimbursed the following subrecipients for RR services without any supporting documentation for the payments:

- LAWorks (Contract No. RWGR070804) \$8,167 for March 2008;
- Hub Cities (Contract No. RWGR070803) \$2,838 for March 2008;
- SASSFA (Contract No. RWGR070805) \$4,660 for March 2008;
- Career Partners (Contract No. RWGR070801) \$4,957 for March 2008; and
- Compton (Contract No. RWGR070802) \$597 for March 2008.

A similar finding was issued in 2006-07.

Subsequent to the on-site review, LADCSS staff stated that the forms listed above are submitted to program staff and can be up to 100 pages or more. Therefore, LADCSS will adjust the contract to remove the statement that the invoice will include all the information listed above and require only the general ledger. The program staff will continue to receive the information listed above and LADCSS can always go to the program staff to reconcile expenditures when necessary.

Recommendation: We recommended that LADCSS provide CRD with copies of the supporting documentation for the RR payments identified above (excluding the e-mail, correspondence, phone logs, etc.). Additionally, if LADCSS decides that the supporting documentation noted above will no longer accompany the RR invoices, we recommended that LADCSS provide CRD with a CAP, including a timeline, describing how RR payments are justified and adequately documented.

LADCSS Response: On September 18, 2008 LADSSS requested documentation from the subrecipients noted above. The requested documentation is due October 2, 2008. The LADCSS will review and forward the documentation to EDD. For fiscal year 2008-09, LADCSS staff will continue to require subrecipient agencies to submit documentation for program review, but not as a requirement for fiscal review or to receive payment on submitted invoices. The LADCSS will include a review of RR payments in its FY 2008-09 monitoring to ensure that the payments are justified and adequately documented.

Additionally, LADCSS will release a new RR request for proposal (RFP) for fiscal year 2009-10. The new RR contracts will require a line item budget be provided with each invoice as well as some performance measurements which will be reviewed prior to payment. Additionally, LADCSS and County Counsel will review all contracts and remove requirements no longer necessary or redundant.

State Conclusion: Based on LADCSS' response, we cannot resolve this issue at this time. Although LADCSS provided a CAP describing how future RR payments will be justified and adequately documented, LADCSS has not yet provided documentation for the PY 2007-08

RR payments noted above. We recommend that LADCSS provide CRD with copies of the supporting documentation for the RR payments identified above (excluding the e-mail, correspondence, phone logs, etc.). Until then, this issue remains open and has been assigned CATS number 80195.

FINDING 8

Requirement: 20 CFR Section 667.410(a) states, in part, that each recipient and subrecipient must conduct regular oversight and monitoring of its WIA activities and those of its subrecipients and contractors.

WIAD00-7 states, in part, that the monitoring of subrecipients follow a standardized review methodology that will result in written reports which record findings, any needed corrective actions, and due dates for the accomplishment of corrective actions. Additionally, the monitoring of subrecipients require systematic follow-up to ensure that necessary corrective action has been taken.

Observation: First, we found that LADCSS has outstanding unresolved questioned costs for PYs 2005-06 and 2006-07 totaling \$1,270,072. Additionally, LADCSS identified approximately \$37,996 in questioned costs for PY 2007-08.

Specifically, as of June 2008 we found the following:

For PY 2005-06: All monitoring reports have been issued and LADCSS identified a total of \$491,743 in questioned costs that remains to be resolved/collected.

For PY 2006-07: 39 of 44 monitoring reports have been issued and LADCSS identified a total of \$778,329 in questioned costs that remains to be resolved/collected.

For PY 2007-08: 17 of 42 monitoring reports have been issued and LADCSS identified approximately \$37,996 in questioned costs to be resolved/collected.

Subsequent to the review, LADCSS provided the following timeline and CAP to resolve questioned costs for PYs 2005-06 and 2006-07:

1. Review monitoring reports to identify re-occurring and/or outstanding findings – November 2007.
2. Re-issue directives – January 2008.
3. Internal meetings – February to March 2008.
4. Send letters to subrecipients to resolve findings – March to August 2008.
5. Training for LADCSS staff – July and August 2008.
6. Technical assistance training for subrecipients – October and November 2008.
7. Resolve all questioned costs – December 2008
8. On-site technical assistance visits to subrecipients – January to June 2009.

Second, we reviewed ten PY 2005-06 and 2006-07 monitoring files that contained questioned costs that had been resolved and found that four of the ten files did not contain adequate documentation to show the question costs were resolved.

Specifically, for PY 2005-06, we found that four monitoring files lacked the following documentation to support the resolution of identified questioned costs:

- Special Services for Groups file lacked documentation demonstrating that \$5,796 was repaid to LADCSS and what LADCSS did with those funds.
- City of Compton file lacked documentation demonstrating that \$21,726 was returned to EDD as indicated in a memo.
- City of Palmdale file lacked documentation demonstrating LADCSS acceptance the City of Palmdale's documentation addressing \$98,740 in questioned costs.
- Los Angeles Urban League file lacked documentation demonstrating how LADCSS resolved \$119,870 in questioned costs.

The County of Los Angeles Department of Auditor-Controller (A-C) conducts the on-site reviews and issues the monitoring reports on behalf of LADCSS. The LADCSS conducts the follow-up for issues identified in the monitoring reports.

Third, per an e-mail sent on October 3, 2007, LADCSS stated that for PY 2007-08, A-C monitoring staff will assign additional resources to the LADCSS Workforce Investment Act monitoring team to ensure that the monitoring reports are issued within three months from the start of the review. During the PY 2007-08 review, we found that A-C issued 17 reports within 3-4 months after the completion of the fieldwork. However, A-C has completed the fieldwork for an additional 14 subcontractors (between February 8 and April 17, 2008) and those reports have not been issued. The LADCSS states that the A-C plans on issuing all PY 2007-08 monitoring reports by August 31, 2008.

Fourth, subsequent to this review, LADCSS provided a copy of its Monitoring Resolution Process. The monitoring resolution process is summarized below:

1. LADCSS will review monitoring reports within 30 days of the issue date to identify corrected and uncorrected findings and questioned costs.
2. LADCSS will coordinate resolution meetings as needed between various divisions within LADCSS and the A-C.
3. LADCSS will prepare a letter to the agency on the status of its findings; the letter will include (1) purpose of the letter, (2) findings that have been corrected and no further action is required, (3) request a specific plan, additional documentation or payment to resolve finding, (4) deadlines concerning when the corrective action plan is due or when the implementation of the necessary correction is required (30 days is the standard deadline), and (5) findings that have been identified to be followed up in the following year's monitoring.
4. LADCSS will follow-up with the agency if it fails to comply with the deadline.

For steps 3 and 4 above, LADCSS did not identify a timeframe as to when a letter will be sent to the agency on the status of the findings nor identified a timeframe for follow-up if the agency fails to comply with the deadline. Additionally, LADCSS did not include in its monitoring resolution procedures when/how questioned costs will become part of a debt collection process.

Recommendation: We recommended that LADCSS:

- Complete the CAP to resolve PYs 2005-06 and 2006-07 questioned costs;
- Provide CRD the missing documentation to support the resolution of the questioned costs for the four subrecipients identified above and review the remaining monitoring files containing questioned costs to ensure adequate resolution documentation;
- Ensure that PY 2007-08 reports are released timely;
- Provide CRD with timelines for bullet 3 and 4 listed above; and
- Include in the monitoring resolution procedures when/how questioned costs will become part of a debt collection process.

LADCSS Response: The LADCSS stated that it is in the process of resolving all prior questioned costs by December 31, 2008. At this time LADCSS is on schedule to meet this deadline. To date, LADCSS has resolved or collected costs for 21 of 26 agencies for PY 2005-06 and 22 of 34 agencies for PY 2006-07.

Regarding the missing documentation to support the resolution of questioned costs, LADCSS:

- Provided documentation demonstrating that \$5,796 was repaid by off-setting the amount claimed in a subsequent invoice submitted by the Special Services for Groups.
- Attached documentation demonstrating that Compton returned the funds to EDD.
- Provided copies of the documents that Palmdale submitted to LADCSS monitoring staff on March 13, 2008, but did not provide documentation demonstrating that LADCSS accepted Palmdale's documentation.
- Provided copies of e-mails discussing \$106,226 in questioned rent expenditures, a compromise agreement and mutual release document between LAUL and EDD, and copies of two checks (in the amount of \$7,659 and \$3,150) submitted to LADCSS by LAUL clarifying how LADCSS resolved the issue with LAUL.

The LADCSS stated that the target date for the release of all PY 2007-08 monitoring reports is October 31, 2008.

Finally, LADCSS provided a revised copy of its monitoring resolution procedures. However, the revised procedures do not address the following:

- Timeframes for notifying the service providers regarding the status of the findings.
- Steps that will be taken if the service provider does not respond within the specified timeframes.

State Conclusion: Based on LADCSS' response, we cannot resolve this issue at this time. Although LADCSS responded to most points outlined in the recommendation, LADCSS monitoring resolution procedures do not include specific timelines as recommended. We recommend that LADCSS revise its monitoring resolution procedures to include specific timelines for all steps of LADCSS' monitoring resolution procedures and provide CRD with a copy. Until then, this issue remains open and has been assigned CATS number 80196.

FINDING 9

Requirement: OMB Circular A-87, Attachment B(C)(3) states, in part, that a cost is allocable to a particular cost objective if the goods and services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

20 CFR Section 667.220 (b)(1)(i-ix) states, in part, that the costs of administration are the costs associated with performing the following: accounting, budgeting, financial, cash management, procurement, purchasing property management, personnel management, payroll, and audit functions.

20 CFR Section 667.220(b)(2) states, in part, that the costs of administration includes performing the oversight and monitoring responsibilities related to WIA administrative functions.

Observation: We found that LADCSS charged the entire cost of its PY 2007-08 fiscal and procurement monitoring to the program cost category. The total cost of both program and fiscal and procurement monitoring was \$731,000.

Recommendation: We recommended that LADCSS reallocate its PY 2007-08 monitoring costs to both the program and administrative cost categories based on the relative benefit received and provide CRD documentation of its actions.

LADCSS Response: The LADCSS stated that it believes all monitoring costs are program related. The LADCSS requests that EDD review the attached monitoring instrument and identify which procedures, if any, it believes are administrative.

State Conclusion: Based on LADCSS' response, we cannot resolve this issue at this time. The LADCSS response did not provide CRD with documentation demonstrating that its monitoring costs have been reallocated to both the program and administrative categories based on the relative benefit received. As specified above, monitoring responsibilities related to WIA administration function, also detailed above, are considered administrative costs.

We, again, recommend that LADCSS reallocate its PY 2007-08 monitoring costs to both the program and administrative cost categories based on the relative benefit received and provide CRD documentation of its actions. Until then, this issue remains open and has been assigned CATS number 80197.

PROCUREMENT REVIEW RESULTS

While we concluded that, overall, LADCSS is meeting applicable WIA requirements concerning procurement, we noted instances of noncompliance in the following areas: contract provisions, prior approval for equipment purchases, and property management. The findings that we identified in these areas, our recommendations, and LADCSS' proposed resolution of the findings are specified below.

FINDING 10

Requirement: WIA Section 189(h) requires that participants must not have violated Section 3 of the Military Selective Service Act, which requires that every male citizen and every other male residing in the United States must register with the Selective Service System (SSS) between their 18th and 26th birth dates.

WIAD04-18 states, in part, that all males who are at least 18 years of age and born after December 31, 1959, and who are not

in the armed services on activity duty, must be registered for Selective Service.

WIAD01-4 states, in part, that when evaluating the documentation and statements provided by the applicant, staff must consider whether the failure to register was knowing and willful. Persons with less than honorable discharges from the armed forces or less than total paralysis may be determined eligible by demonstrating that they did not knowingly and willfully fail to register with the SSS.

WIA 101(9) states, in part, that the term "dislocated worker" means an individual who:

- Has been terminated or laid off, or who have received a notice of termination or layoff from employment; and
- Is eligible for or has exhausted entitlement to unemployment compensation; or has been employed for a duration sufficient to demonstrate attachment to the workforce, but insufficient earnings or having performed services for an employer that were not covered under a State unemployment compensation law; and
- Is unlikely to return to a previous industry or occupation; or
- Has been terminated or laid off, or has received a notice of termination or layoff, from employment as a result of any permanent closure of, or any substantial layoff at, a plant, facility, or enterprise; or
- Is employed at a facility at which the employer has made a general announcement that such facility will close within 180 days; or
- Was self-employed (including employment as a farmer, a rancher, or a fisherman) but is unemployed as a result of general economic conditions in the community in which the individual resides or because of natural disaster; or
- Is a displaced homemaker.

Observation:

We reviewed LADCSS adult and dislocated worker Request For Proposal (RFP) and found that the scope of work contains inaccurate information regarding eligibility requirements. The RFP scope of work, including the adult and dislocated worker eligibility, becomes part of the subrecipient contract.

Under the adult program eligibility it states, in part, "If male, registered with the Selective Service (applies only to applicants who are 18-21 at the time of application)". However, all males born after December 31, 1969 must be registered for Selective Service or be able to demonstrate that the participant did not knowingly or willfully fail to register.

Under the dislocated worker program eligibility it states, in part, that eligibility is limited to individuals who meet one or more of the following criteria; a list of dislocated worker eligibility criteria follows. However, many of the criteria listed in the eligibility section do not stand alone and participants must meet more than one of the listed criteria to be eligible for the dislocated worker program.

Recommendation: We recommended that LADCSS provide CRD with a CAP, including a timeline, to ensure that subcontractors are aware of the adult and dislocated worker eligibility requirements noted above.

LADCSS Response: The LADCSS has hired a consultant to draft a new directive on eligibility requirements. The draft directive should be submitted to LADCSS by September 30, 2008. The LADCSS will review the directive, make modifications as necessary, and send the subrecipients a copy via e-mail. Additionally, LADCSS will send the new directive to all subrecipients by registered e-mail. The LADCSS expects to provide the subrecipients the new directive by October 15, 2008.

State Conclusion: The LADCSS stated corrective action should be sufficient to resolve this issue. However, we cannot close this issue until we verify, during a future onsite visit, LADCSS' successful implementation of its stated corrective action. Until then, this issue remains open and has been assigned CATS number 80198.

FINDING 11

Requirement: 29 CFR Part 97 Section 97.3 states, in part, that equipment means tangible, nonexpendable, personal property having a useful life of more than one year and an acquisition cost of \$5,000 or more per unit. Additionally, supplies mean tangible personal property other than equipment.

29 CFR Part 97 Section 97.32 states, in part, that a property control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of property funded in whole or in part with federal funds. Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, the cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data. A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.

Observation: We found that LADCSS does not have a system in place to ensure adequate safeguards to prevent loss, damage, or theft of property funded in whole or in part with federal funds. Additionally, LADCSS does not have current property records that include the requirements listed above. At the time of the review, LADCSS was in the process of implementing a system to address these deficiencies in its property management system.

Recommendation: We recommended that LADCSS provide CRD with a timeline for implementing the property management system. Additionally, we recommended that LADCSS provide CRD with a copy of the resulting property record upon its completion.

LADCSS Response: The LADCSS stated it was unaware that EDD staff (during the PY 2007-08 on-site fiscal and procurement review) requested documentation to justify the observation that LADCSS does not have system in place to ensure adequate safeguards to prevent loss, damage, or theft of property funded in whole or in part with federal funds or that LADCSS does not have current property records. The LADCSS also notes that it did not purchase any equipment or property that was charged to WIA during fiscal year 2007-08.

Additionally, LADCSS states that vendor assisting with the implementation of its Asset Management System began installing bar code identification on LADCSS property located at headquarters on September 22, 2008. That process is expected to take approximately ten working days. Upon completion, review, adjustments and/or modifications, the system will then be

rolled out to the Area Agency on Aging program housed in another facility and then the Community Service Centers. We anticipate that the entire process will be completed by November 15, 2008. Additionally, LADCSS intends to use the same system to track equipment purchases by its subrecipients. Implementation of that phase is expected to begin in the first quarter of 2009.

The LADCSS expects to be able to provide EDD a copy of the property records generated by the Asset Management System as early as November 30, 2008.

State Conclusion: The LADCSS stated corrective action should be sufficient to resolve this issue and no further corrective action is required at this time. However, we cannot close this issue until we verify, during a future onsite visit, LADCSS' successful implementation of its stated corrective action. Until then, this issue remains open and has been assigned CATS number 80199.

FINDING 12

Requirement: OMB Circular A-87 Attachment B Section 15(a)(1) states, in part, that acquisition cost means the cost of the asset including the cost to put it in place such as net invoice prices of the equipment, the cost of any modifications, attachments, accessories, or auxiliary apparatus necessary to make it usable for the purpose for which it is acquired.

WIAD03-9 states, in part, that all subrecipients and their lower-tier subrecipients who plan to purchase property with an acquisition cost of \$5,000 or more per unit, including all costs related to the property's final intended use must require the State's approval prior to charging WIA grant funds.

Observation: We found that in May 2008, LADCSS procured property management software (including peripheral devices, training, and support) without prior approval from the State. Specifically, LADCSS purchased:

- Government Edition license for On-Premise Solution: AssetManager 5.2 Single Database Instance Server license (including 1-year support, maintenance and upgrades) - \$30,919

- Handheld software license for AssetManager Handled Scanner - \$2,000
- Scanners - \$7,000
- Remote software implementation service - \$1,350
- Solution training - \$2,700
- Onsite processing development - \$8,100
- Integration to eCaps - \$6,750
- Professional asset inventory services - \$31,610.
- Total cost - \$90,429

Subsequent to the review, LADCSS submitted a Request for Approval, dated August 11, 2008, to EDD.

Recommendation: We recommended that LADCSS provide CRD with documentation demonstrating the outcome of its Request for Approval. If the Request for Approval is denied, we recommended that LADCSS submit a CAP to remove these costs from the WIA program.

LADCSS Response: The LADCSS stated that at the time of on-site PY 2007-08 fiscal and procurement review, no costs had been billed to WIA for the acquisition of the Asset Management System. As of this date, no costs for the system have been billed to WIA.

On August 28, 2008 LADCSS received EDD approval to charge WIA for the Asset Management System. The LADCSS provided a copy of the approval letter.

State Conclusion: We consider this finding resolved.

We provide you up to 20 working days after receipt of this report to submit to the Compliance Review Division your response to this report. Because we faxed a copy of this report to your office on the date indicated above, we request your response no later than December 19, 2008. Please submit your response to the following address:

Compliance Monitoring Section
Compliance Review Division
722 Capitol Mall, MIC 22M
P.O. Box 826880
Sacramento, CA 94280-0001

— In addition to mailing your response, you may also FAX it to the Compliance Monitoring Section at (916) 654-6096.

Because the methodology for our monitoring review included sample testing, this report is not a comprehensive assessment of all of the areas included in our review. It is LADCSS' responsibility to ensure that its systems, programs, and related activities comply with the WIA grant program, Federal and State regulations, and applicable State directives. Therefore, any deficiencies identified in subsequent reviews, such as an audit, would remain LADCSS responsibility.

Please extend our appreciation to your staff for their cooperation and assistance during our review. If you have any questions regarding this report or the review that was conducted, please contact (916) 653-7541 or Ms. Mechelle Hayes at (916) 654-7005.

Sincerely,

A handwritten signature in black ink, appearing to read "Jessie Mar", with a large, stylized loop at the end.

JESSIE MAR, Chief
Compliance Monitoring Section
Compliance Review Division

cc: Jose Luis Marquez, MIC 50
Josie Marquez, Assistant Director
Daniel Patterson, MIC 45
Linda Patton-Finch, MIC 50
Georganne Pintar, MIC 50